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THE MAGAZINE FOR GROWING COMPANIES

Inc.®

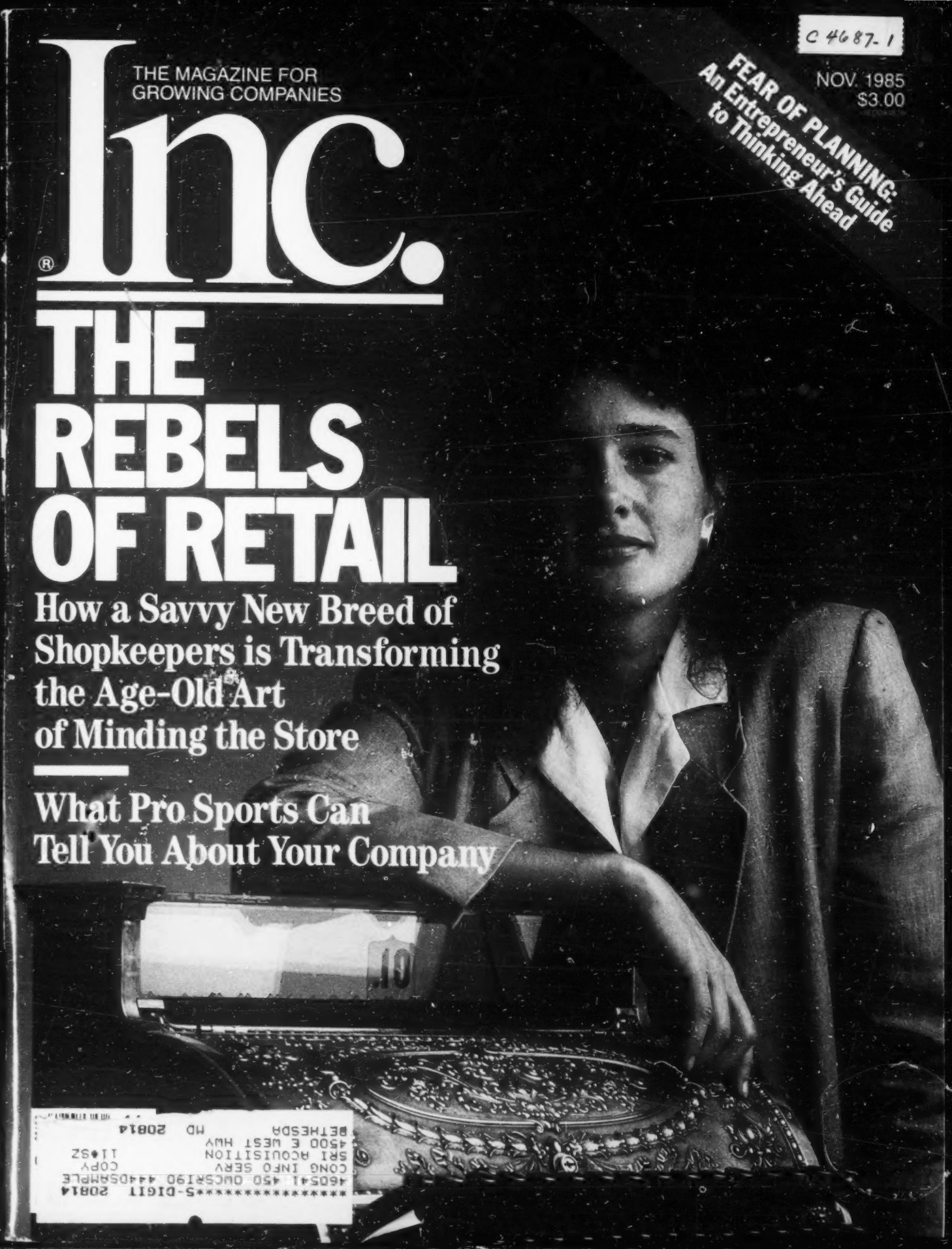
NOV. 1985
$3.00

FEAR OF PLANNING: An Entrepreneur's Guide to Thinking Ahead

THE REBELS OF RETAIL

How a Savvy New Breed of Shopkeepers is Transforming the Age-Old Art of Minding the Store

What Pro Sports Can Tell You About Your Company



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NOVEMBER 1985

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Holly Heslop, co-owner of the Children's Workshop, in Cambridge, Mass.

Photo
Clint Clemens

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DESPERATE DEVELOPERS

Office Space Glut Helps Small Companies

WHEN BOB NEWTON WAS shopping for office space, landlords tried to woo him with all sorts of extras. But he had something practical in mind. "We needed a lot of furniture," recalls Newton, former president of Star Technologies Inc. "And it's difficult to arrange financing for that kind of fixed asset."

MITCH KEZAR/BLACK STAR

Northland took "quite a risk" when it bought office furniture for its tenants, says president James Stuebner.

Newton wound up with $500,000 worth of office furniture. Northland Development Co. of Minneapolis, which owns an office park, bought the furniture and is being repaid at a low interest rate as part of each rent check. "It was quite a risk on our part," says James Stuebner, Northland's president.

Developers in the growing number of cities with too much office space feel that they must take risks to win tenants. Some are so hungry that they are becoming financiers for small companies, which can be desirable tenants if they grow fast.

To lure them, some developers are going beyond routine remodeling and rent abatement, which are fairly common sweeteners. Agreements can now require developers to buy specialized equipment for their tenants or even to take equity in lieu of some rent. "A developer will do just about anything he needs to do, within reason, to get the deal," says Sid Peters, of the National Association of Industrial and Office Parks.

Many developers want to take equity but aren't equipped to evaluate the risk. As a result, some observers say that builders will soon start working with venture capitalists, who can analyze their investment. "Some developers feel that when they see a good opportunity, they may get a higher return through stock than through rent," says Stephen Finn, a real estate lawyer in San Francisco. "But generally, they lack the expertise to do it."

These new deals, all done merely to fill offices, could eventually spell trouble for developers that lack financial savvy. In a buyer's market for office space, says one builder, "it's a sign of desperation on the part of the developers." —*J.H.*

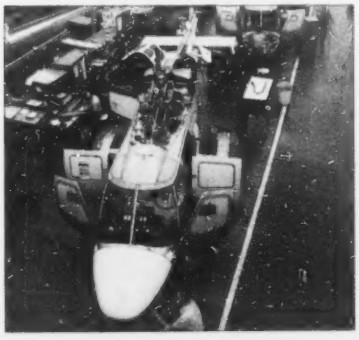
"There are lots of people who have fantasies about business and read books on how to start one. But reading books on how to do a business plan is kind of like reading *The Joy of Sex* and thinking that you know how to create a relationship."
—Burt Alimansky, managing partner, Alimansky Planning Group

SCORECARD

Lucky Thirteen

In the brutal six-year war to stem the decline of U.S. manufacturing jobs, most states have suffered heavy casualties. From an all-time high in 1979, manufacturing employment had lost 1.7 million jobs by this year. Illinois was the biggest loser, with 324,000 manufacturing jobs disappearing.

Some states, however, resisted the bleakest period for manufacturing since the Great Depression. Thirteen states actually *gained* production jobs. The gains came in some of the same industries that were declining elsewhere: electronics, machinery, and transportation equipment. Increases also occurred in printing and publishing, high technology, and defense.



TOM TRACY/THE STOCK SHOP

Typical of the gainers was Georgia, with a jump of more than 20,000 jobs. Employment rose among automobile and aircraft makers, including General Motors, Ford Motor, and Lockheed. William Kahley, an economist with the Federal Reserve Bank of Atlanta, says that Georgia manufacturers have been buoyed by cheaper labor, energy, and materials, combined with good distribution channels. Kahley adds that Georgia's modern industrial base is another advantage. "Manufacturing plants in the Southeast are newer than those in the Midwest," he says. "They are shut down later in a downturn and opened earlier in an upturn."

Here are the lucky 13, with figures from 1979 to 1985. —*William Souder*

	State	Manufacturing jobs gained	Percentage increase
1.	California	88,100	4%
2.	Florida	79,700	18%
3.	Arizona	42,000	30%
4.	Massachusetts	21,900	3%
5.	Georgia	20,100	4%
6.	Colorado	14,900	9%
7.	Utah	11,100	13%
8.	Virginia	11,100	3%
9.	New Hampshire	9,000	8%
10.	Minnesota	3,200	1%
11.	New Mexico	2,600	8%
12.	Delaware	2,400	4%
13.	Nevada	2,400	13%

together in a scant two weeks, the name was a derivative of the open-shipping container-and-dyed burlap look they improvised out of necessity. Customers found them—one regular shopper was designer Miës van der Rohe's daughter, who often carried Crate stemware home to her papa. (If Gordon were into tattoos, van der Rohe's adage, "God is in the details," would be a strong contender for his chest.) But Gordon didn't always understand what they were up to. He could talk for an hour about a Bengt Bengtner goblet and not seem to care particularly if he sold one, six, or none. About half of the store's initial inventory went out the front door at cost: ignorance, not charity. Crate's revenue curve, moreover, was a picture of consistency, sales hit $8,000 the first month, half that the next, half *that* the next.

Ah, but at least it wasn't *boring*. In fact the excitement was just starting. In 1965, with their customer base and pricing procedures more solidly established, Crate's proprietors were threatened with loss of their Old Town lease. Gordon again improvised an unusual deal—Crate would put up a new building, lease it back from the landlord, and finally would buy it 15 years later—that foreshadowed a string of advantageous lease arrangements he would hammer out over the next two decades. In 1968, with the company grossing $500,000 a year, Crate opened a second store, Plaza Del Lago, in suburban Wilmette. The third store appeared in Oak Brook in 1971. With each expansion, says Segal, they were "betting the company."

"Crate was highly leveraged all the way," he explains. "We'd never sought outside capital, in part because we wanted to keep the business small and exciting. We really did want to have fun with this thing." Contending that it wasn't until the opening of the Michigan Avenue, Chicago, store in 1975 that "we finally got recognized," he mentions that his first bank wanted Crate to put up half the $300,000 cost of the Oak Brook expansion itself. Their response? "We found another lender."

Crate found other sources of inspiration as well. In 1966, Gordon and designer Lon Habkirk flew to Boston to look over Design Research. Founded by architect Benjamin Thompson, DR, as it was known familiarly, was the archetype of everything Segal aspired to: a clean, contemporary-looking, European-flavored design store specializing in imported housewares and furniture. As described in a Harvard Business School case study, DR "conveyed a glimpse at a lifestyle that was both gracious and yet conducive to the demands of modern society. . . . The results were a shopping experience unique for its time."

Habkirk, creative director of the Crate & Barrel Furniture store in Cambridge, Mass., the only furniture outlet in the company chain, remembers the exposure

BY THE NUMBERS

Segal's Secret: More Bang for the Square Foot

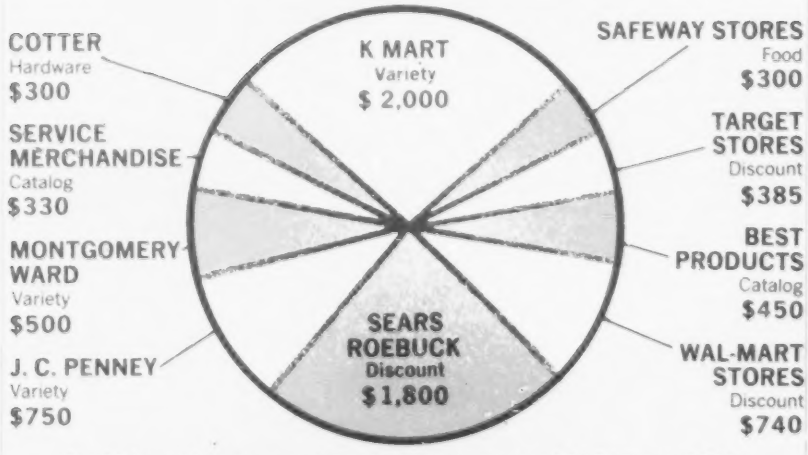
Housewares is a $42-billion-a-year retail business," says Jeff Adair, editor of *Housewares*, a trade publication in Cleveland, "where individual numbers are very, very hard to come by. Everybody knows what their competitors do, at least in general terms, but they don't like sharing their secrets with the competition."

On an industry-wide basis, it is no secret that the growth trend is in the direction of the discount houses. According to its recent listing of the top 100 housewares retailers nationwide (see chart), *Totally Housewares* found 7 of the 10 biggest sales gainers in the discount category—and only three department stores in the top 25. Supermarkets and drugstores have also become major players in the housewares game. Safeway Stores, for example, boasted 1984 houseware sales of $300 million, and Jack Eckerd did $185 million. Among leaders in other generic outlet categories are Bamberger's department stores ($65 million), Best Products catalog showrooms ($450 million), Sears Roebuck variety stores ($1.8 billion), Cotter hardware stores ($300 million), and Price Club membership clubs ($125 million).

Although Crate doesn't show up on the charts, last year's revenues of $46 million would qualify it for *Totally Housewares*' list, well ahead of such department store notables as Bloomingdale's ($38 million) and Marshall Field ($27 million). Plus, as *Totally Housewares*' survey notes, "There's no indication of such factors as profitability, [inventory] turn, or sales volume per square foot." Translation: Crate's controlled-growth strategy may well make up in quality of sales what it sacrifices in quantity. That growth has been about 20% compounded annually. Nine of the 10 volume leaders averaged an aggregate 25.7% upturn in housewares sales last year, but none were specialty stores concentrating on imported merchandise. Adds Ronald Fippinger of the National Housewares Manufacturers Association, "There's been a great shakeout in so-called gourmet stores. So many of the little retailers can't make it. You walk into Gordon's stores and *know* he is."

Jeff Adair ventures that, as of a couple of years ago, anyway, sales figures in the $100-per-square-foot range were the benchmark for a successful housewares retailer. Despite his own penchant for secrecy, one number Gordon Segal *will* disclose is that last year, Crate's stores took in an average $450 per square foot of selling space—a figure that underscores a longtime contention of his that "if we're not doing three times what the department stores are doing, we're not doing our job."

THE 10 BIGGIES



The 10 largest housewares retailers had combined sales of $7.5 billion in 1984, representing about 18% of the market. (Figures in chart given in millions of dollars.)

ILLUSTRATED CHART BY SCOTT MacNEILL

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